

CITY OF POLK CITY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2015

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-7
Management's Discussion and Analysis		8-13
Basic Financial Statements:		
	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	17
Notes to Financial Statements		18-27
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		29
Notes to Other Information - Budgetary Reporting		30
Schedule of the City's Proportionate Share of the Net Pension Liability		31
Schedule of City Contributions		32
Notes to Other Information - Pension Liability		33
Supplementary Information:		
	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	35
Schedule of Indebtedness	2	36
Note Maturities	3	37
Schedule of Receipts by Source and Disbursements by Function- All Governmental Funds	4	38
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		39-40
Schedule of Findings		41-47

City of Polk City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jason Morse	Mayor	January 1, 2018
Jeff Walters *	Mayor Pro-Tem/Council Member	January 1, 2016
Robert Mordini	Council Member	January 1, 2018
David Dvorak**	Council Member/Mayor Pro-Tem	January 1, 2016
Ronald Anderson	Council Member	January 1, 2016
Dan Lane	Council Member	January 1, 2018
Rob Sarchet ***	Council Member	January 1, 2016
Gary Mahannah	City Administrator	Indefinite
Debra Nabity ****	Finance Officer/Treasurer	Indefinite
Lindsey Huber *****	Finance Director	Indefinite
Sharon Nickles *****	City Clerk	Indefinite
Jennifer Ratcliff *****	City Clerk	Indefinite
Brick Gentry, et al, P.C.	City Attorney	Indefinite

* - Resigned in February, 2015.

** - Appointed to Mayor Pro-Tem upon the resignation of Jeff Walters.

*** - Appointed in February, 2015.

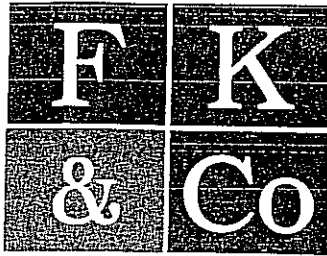
**** - Resigned March 25, 2015

***** - Began April 3, 2015.

***** - Retired December 31, 2014.

***** - City Clerk effective January 1, 2015.

City of Polk City



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Polk City, Iowa, (City) as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the receipts, disbursements and the cash basis balances of the aggregate discretely presented component units has not been determined.

Opinions

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2015, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Emphasis of a Matter

As disclosed in Note 6 to the financial statements, the City adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

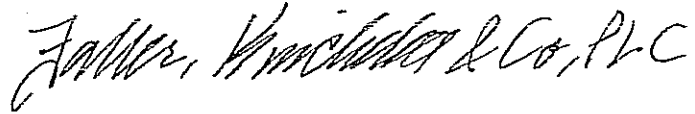
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2014 (which are not presented herein) and expressed modified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the legally separate component units. The financial statements for the eight years ended June 30, 2013 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the City's Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 13 and 29 through 33 has not been subjected to the auditing procedures applied in the audit of the basic statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 1, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
February 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Polk City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased by 4.87%, or \$245,043 from fiscal year 2014 to fiscal year 2015.
- Disbursements increased by 3.56% or \$163,407, in fiscal 2015 from fiscal 2014. Public works, health and social services, culture and recreation, community and economic development, general government, and debt service increased \$103,008, \$27, \$86,831, \$309,137, \$226,376, and \$150,042 while public safety and capital projects decreased \$19,244 and \$692,771 respectively.
- The City's total cash basis net assets increased 11.48%, or \$479,409, from fiscal year 2014 to fiscal year 2015. Of this amount, the cash basis net position of the governmental activities increased \$523,278 and the cash basis net position of the business type activities decreased by \$43,870.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and support the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non major governmental funds and the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property taxes, local option sales taxes and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds includes a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer funds, considered to be major funds of the City.

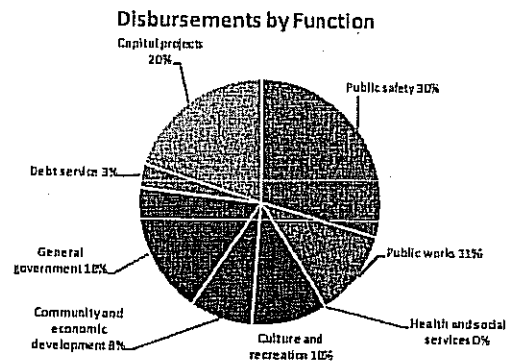
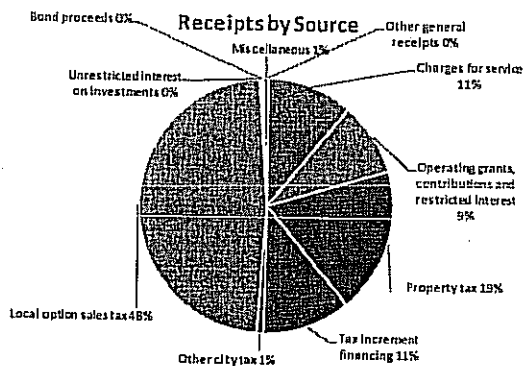
The required financial statements for governmental funds includes a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$3,829,602 to \$4,352,880. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities			
		Year ended June 30	
		2015	2014
Receipts:			
Program receipts:			
Charges for service	\$	583,246	\$ 620,181
Operating grants, contributions and restricted interest		492,125	420,088
General Receipts:			
Property tax		975,259	956,228
Tax increment financing		601,154	363,211
Other city tax		52,281	4,703
Local option sales tax		2,503,579	2,557,358
Unrestricted interest on investments		13,371	11,173
Bond proceeds		15,545	0
Miscellaneous		36,338	92,585
Other general receipts		2,507	4,835
Total receipts		5,275,405	5,030,362
Disbursements:			
Public safety		1,400,298	1,419,542
Public works		539,584	436,576
Health and social services		2,719	2,692
Culture and recreation		487,125	400,294
Community and economic development		393,685	84,548
General government		826,949	600,573
Debt service		150,042	0
Capital projects		951,724	1,644,495
Total disbursements		4,752,127	4,588,720
Change in cash basis net position before transfers		523,278	441,642
Transfers, net		0	0
Change in cash basis net position		523,278	441,642
Cash basis net position beginning of year		3,829,602	3,387,960
Cash basis net position end of year	\$	4,352,880	\$ 3,829,602



The City's total receipts for governmental activities increased by 4.87% or \$245,043. The increase in receipts was primarily the result of an increase in charges for services, property tax, and other general receipts.

The total cost of all programs and services increased by \$163,407 or 3.56%. The majority of this increase is attributed to an increased spending on debt service and general government.

The cost of all governmental activities this year was \$4,752,127 compared to \$4,588,720 last year. However, as shown in the Statement of Activities and Net Position, the amount taxpayers ultimately financed for these activities was only \$3,676,755, because some of the cost (\$583,246) was paid by those directly benefited from the programs or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$492,125). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased from \$1,040,269 in fiscal year 2014 to \$1,075,371 in fiscal year 2015. The City paid for the remaining "public benefit" portion of governmental activities with \$3,676,756 in property taxes (some of which could only be used for certain programs) and with other receipts, such as local option sales tax, bank interest and miscellaneous income.

Changes in Cash Basis Net Position of Business Type Activities		
	Year Ended June 30,	
	2015	2014
Receipts		
Program receipts:		
Charges for services:		
Water	\$ 557,839	\$ 533,075
Sewer	506,353	480,465
General receipts:		
Unrestricted interest on investments	7,899	7,185
Bond proceeds	1,697,575	
Intergovernmental	-	551,164
Other general receipts	9,759	45,281
Total Receipts	<u>2,779,425</u>	<u>1,617,170</u>
Disbursements:		
Water	569,220	485,972
Sewer	<u>2,254,075</u>	<u>1,277,367</u>
Total Disbursements	<u>2,823,295</u>	<u>1,763,339</u>
Change in cash basis net position before transfers, net	(43,870)	(146,169)
Transfers, net	-	-
Change in cash basis net position	<u>(43,870)</u>	<u>(146,169)</u>
Cash Basis Net Position Beginning of Year	344,976	491,145
Cash Basis Net Position End of Year	<u>\$ 301,106</u>	<u>\$ 344,976</u>

Total business type activities receipts for the fiscal year were \$2,779,425 compared to \$1,617,170 last year. This increase was due to increased rates and increases usage by citizens and bond proceeds. Total disbursements for the year increased by 60.11% to a total of \$2,823,295. This increase was the result of a W.R.A. sewer project. This was a partnership project between the City of Polk City and W.R.A. and 17 other communities.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Polk City completed the year, its governmental funds reported a combined fund balance of \$4,352,881 an increase of \$523,279. This increase is attributable to an increase in receipts from charges for services and other general receipts.

- The General Fund cash balance increased by \$1,312,465 from the prior year total of \$2,452,184. This increase is attributable to an increase in receipts from property taxes.
- The Special Revenue Low Moderate Income cash balance increased by \$233,126 from the prior year total of \$1,152,418. The increase is attributable to an increase in tax increment financing receipts.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$296 to \$148,690. This increase is attributable to increased charges for services.
- The Sewer Fund cash balance decreased by \$44,166 to \$152,416, this balance decrease is attributable to continuing expenditures of a capital nature.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The amendments were approved on November 10, 2014 and May 26, 2015 and resulted in an increase in both disbursements and receipts. The City had sufficient cash balances to absorb these additional costs.

The City exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and general government functions for the year ended June 30, 2015.

DEBT ADMINISTRATION

At June 30, 2015, the City had \$1,610,000 of bonds and other long-term debt outstanding, compared to \$0 last year, as show below.

	Outstanding Debt at Year-End	
	June 30,	
	2015	2014
General obligation capital loan notes	\$ 1,610,000	\$ -
Total	\$ 1,610,000	

Debt increased as a result of issuing general obligation bonds for the City of Polk City to buy into and use the W.R.A. facilities. This is a 17 year commitment.

The City continues to carry a general obligation bond rating of NR assigned by national rating agencies to the City's debt since 2015. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and TIF debt of \$1,610,000 is significantly below its constitutional debt limit of approximately \$14,326,145. Additional information about the City's long-term debt is presented in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Polk City's elected and appointed officials and citizens will consider many factors when setting the fiscal year 2016 budget, tax rates, and fees that will be charged for various City activities. A major consideration will be street upgrades and improving quality of life through the economic development, acquiring park land, and finding alternatives for outdoor recreation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lindsey M. Huber, Finance Director of Polk City, and 112 3rd Street, PO Box 426 Polk City, Iowa 50226 or email lhuber@polkcityia.gov.

Basic Financial Statements

City of Polk City

Cash Basis Statement of Activities and Net Position

Exhibit A

As of and for the year ended June 30, 2015

Functions / Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 1,400,298	530,956	46,799	-	(822,543)	-	(822,543)
Public works	539,584	2,728	356,848	-	(180,008)	-	(180,008)
Health and social services	2,719	-	-	-	(2,719)	-	(2,719)
Culture and recreation	487,125	32,723	38,781	-	(415,621)	-	(415,621)
Community and economic development	393,685	-	-	-	(393,685)	-	(393,685)
General government	826,949	6,273	49,697	-	(770,979)	-	(770,979)
Debt service	150,042	-	-	-	(150,042)	-	(150,042)
Capital projects	951,724	10,566	-	-	(941,158)	-	(941,158)
Total governmental activities	4,752,126	583,246	492,125	-	(3,676,755)	-	(3,676,755)
Business type activities:							
Water	569,220	557,839	-	-	-	(11,381)	(11,381)
Sewer	2,254,075	506,353	-	-	-	(1,747,722)	(1,747,722)
Total business type activities	2,823,295	1,064,192	-	-	-	(1,759,103)	(1,759,103)
Total	\$ 7,575,421	1,647,438	492,125	-	(3,676,755)	(1,759,103)	(5,435,858)
General Receipts:							
Property and other city tax levied for:							
General purposes					975,259	-	975,259
Tax increment financing					601,154	-	601,154
Other city tax					52,281	-	52,281
Local option sales tax					2,503,579	-	2,503,579
Unrestricted interest on investments					13,371	7,899	21,270
General obligation note proceeds (net of \$6,880 discount)					15,545	1,697,575	1,713,120
Miscellaneous					36,338	9,759	46,097
Sale of capital assets					2,507	-	2,507
Total general receipts					4,200,034	1,715,233	5,915,267
Change in cash basis net position					523,279	(43,870)	479,409
Cash basis net position beginning of year					3,829,602	344,976	4,174,578
Cash basis net position end of year					\$ 4,352,881	301,106	4,653,987
Cash Basis Net Position							
Restricted:							
Expendable:							
Streets					\$ 178,762	-	178,762
Other purposes					1,423,570	53,992	1,477,562
Unrestricted					2,750,549	247,114	2,997,663
Total cash basis net position					\$ 4,352,881	301,106	4,653,987

See notes to financial statements.

City of Polk City

Exhibit B

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2015

	General	Special Revenue Low- Moderate Income	Capital Projects	Nonmajor	Total
Receipts:					
Property tax	\$ 975,259	-	-	-	975,259
Tax increment financing	-	271,906	-	329,248	601,154
Other city tax	2,555,860	-	-	-	2,555,860
Licenses and permits	155,958	-	-	-	155,958
Use of money and property	67,804	4,298	-	-	72,102
Intergovernmental	69,557	-	-	356,848	426,405
Charges for service	375,777	-	-	-	375,777
Miscellaneous	73,798	-	20,843	197	94,838
Total receipts	4,274,013	276,204	20,843	686,293	5,257,353
Disbursements:					
Operating:					
Public safety	1,400,298	-	-	-	1,400,298
Public works	227,470	-	-	312,114	539,584
Health and social services	2,719	-	-	-	2,719
Culture and recreation	486,896	-	-	229	487,125
Community and economic development	19,723	43,078	-	330,884	393,685
General government	826,949	-	-	-	826,949
Debt service	-	-	-	150,042	150,042
Capital projects	-	-	951,724	-	951,724
Total disbursements	2,964,055	43,078	951,724	793,269	4,752,126
Excess (deficiency) of receipts over (under) disbursements	1,309,958	233,126	(930,881)	(106,976)	505,227
Other financing sources (uses):					
General obligation note proceeds	-	-	-	15,545	15,545
Sale of capital assets	2,507	-	-	-	2,507
Total other financing sources (uses)	2,507	-	-	15,545	18,052
Change in cash balances	1,312,465	233,126	(930,881)	(91,431)	523,279
Cash balances beginning of year	2,452,184	1,152,418	83,418	141,582	3,829,602
Cash balances end of year	\$ 3,764,649	1,385,544	(847,463)	50,151	4,352,881
Cash Basis Fund Balances					
Restricted for:					
Streets	\$ -	-	-	178,762	178,762
Other purposes	30,504	1,385,544	-	7,522	1,423,570
Unassigned	3,734,145	-	(847,463)	(136,133)	2,750,549
Total cash basis fund balances	\$ 3,764,649	1,385,544	(847,463)	50,151	4,352,881

See notes to financial statements.

City of Polk City

Exhibit C

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2015

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 557,839	506,353	1,064,192
Total operating receipts	557,839	506,353	1,064,192
Operating disbursements:			
Business type activities	531,463	420,541	952,004
Total operating disbursements	531,463	420,541	952,004
Excess of operating receipts over operating disbursements	26,376	85,812	112,188
Non-operating receipts (disbursements):			
Interest on investments	1,996	5,903	7,899
Miscellaneous	9,681	78	9,759
General obligation note proceeds	-	1,697,575	1,697,575
Debt service	-	(1,815,390)	(1,815,390)
Capital projects	(37,757)	(18,144)	(55,901)
Net non-operating receipts (disbursements)	(26,080)	(129,978)	(156,058)
Change in cash balances	296	(44,166)	(43,870)
Cash balances beginning of year	148,394	196,582	344,976
Cash balances end of year	\$ 148,690	152,416	301,106
Cash Basis Fund Balances			
Restricted for customer meter deposits	\$ 53,992	-	53,992
Unrestricted	94,698	152,416	247,114
Total cash basis fund balances	\$ 148,690	152,416	301,106

See notes to financial statements.

City of Polk City

Notes to Financial Statements

June 30, 2015

(1) **Summary of Significant Accounting Policies**

The City of Polk City (City) is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general governmental services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Units

The Polk City Firefighters Association was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Polk City Firefighters Association is to support the activities of the Polk City, Iowa fire department.

The Friends of the Polk City Community Library was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Friends of the Polk City Community Library is to support the activities of the Polk City, Iowa library.

Jointly Governed Organizations

In 1998, the City joined with fifteen cities and counties to perpetuate the Des Moines Area Metropolitan Planning Organization (Organization) to plan and coordinate the transportation activities for the metropolitan area. The Organization's Board consists of a representative from the governing body of each member city. The members make contributions toward the budget of the Organization.

In 1969, the City, in conjunction with seventeen other cities, created the Metro Waste Authority (the Authority). The Authority Board consists of an elected representative of the governing body of each participating governmental jurisdiction. The purpose of this joint governmental body is to provide for the economic disposal of all solid waste produced or generated by the jurisdictions and private contractors.

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following Boards: Polk County Assessor's Conference Board, Joint County/Municipal Disaster Services and Emergency Planning Administration for Polk County, E911 Joint Service Board, Central Iowa Regional Drinking Water Commission, BRAVO, the Polk City Development Corporation and the Greater Des Moines Convention and Visitor's Bureau.

Joint Venture

The City also participates in the Des Moines Metropolitan Wastewater Reclamation Authority (WRA). The WRA, a joint venture, was developed as a result of an agreement between the City of Des Moines and surrounding municipalities. See Note 4.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Special Revenue, Low-Moderate Income Fund is used to account for low to moderate income monies, and for the related monies spent on the low to moderate income program in the City.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and the general government functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$4 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment trust is unrated.

The City Library invested monies in a local non-profit organization (Foundation). At June 30, 2015, the carrying amount and fair value of the investments were \$7,522. The Foundation holds investments in domestic and international equities, fixed income, hedge funds, real estate, private equity and cash.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Public Service Agreement

The City has entered into a contract with Polk County for a joint public service agreement. Since all the construction costs are not yet known, the City is operating from a preliminary payment schedule. During the year ended June 30, 2015, the City paid \$559,793 to Polk County in relation to this agreement. Based on the preliminary payment schedule, as of June 30, 2015, the City is expected to pay Polk County an additional \$14,529,368 through fiscal year 2042 for this agreement. Once the construction costs are known, the City will receive a new amortization schedule from Polk County.

The amount of debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, as obtained from the County Assessor's valuation. The debt limit at June 30, 2015 was \$14,366,224. The City's bond attorney has opined that the amount owed to Polk County in relation to the joint public service agreement is not subject to the constitutional debt limit of the City.

(4) Joint Venture and Commitments

The City is a participating community in the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) joint venture. This joint venture provides primary and secondary treatment of sewer flows for the participating communities. The Amended and Restated Agreement for the WRA was effective on July 1, 2004. This agreement amended and restated the previous Integrated Community Area (I.C.A.) Agreement to provide continued operation, improvements and expansion. The WRA Agreement establishes the WRA as a separate legal entity with its own Board, creates an independent governance structure, establishes an independent bonding authority for the WRA and provides a framework for additional communities to participate.

Annually, the WRA establishes an allocation to all participating communities based on operations, maintenance, debt service and reserve requirements. Allocations are based on wastewater reclamation facility flows and are adjusted prospectively for differences in budgeted flows and actual flows.

The City retains an ongoing financial responsibility to the WRA since it is obligated in some manner for the debts of the joint venture through the annual allocation. Although the debt of the WRA is to be paid solely and only from WRA revenues, the participating communities in the joint venture cannot withdraw from the joint venture while any of the bonds issued during the time the communities were a participating community are still outstanding. The WRA Sewer Revenue Bonds Series 2004A, 2006 and 2013B include provisions that place the WRA debt service requirements on the same parity and rank as other debts of the participating communities. The 2004B bonds were refinanced as the 2013B bonds during the year ended June 30, 2013.

The WRA Agreement requires the debt service on these bonds to be allocated to the participating communities based on the WRA flows of the core communities and expansion communities of each calendar year. As of June 30, 2015, the Series 2013B bonds had a balance of \$54,170,000 and the City's estimated future allocation based on the WRA flows is currently \$485,959, or .90%. As of June 30, 2015, the Series 2006 bonds had a balance of \$32,955,000 and the City's estimated future allocation based on the WRA flows is currently \$315,775, or .96%. The State Revolving Loans are to be paid by the participating communities based on the existing allocations under the prior I.C.A. agreement. On June 30, 2015, the State Revolving Loans had a balance of \$262,051,730 and the City's estimated future allocation based on the WRA flows is currently \$2,289,808, or .87%. The pre-2004 State Revolving Loans are to be paid by the participating communities based on the existing allocations under the prior I.C.A. agreement. As of June 30, 2015, the WRA had \$2,105,000 of outstanding pre-2004 State Revolving Loans, of which no future principal debt service is a commitment of the City.

The WRA Agreement does not provide for the determination of an equity interest for the participating communities. Withdrawing from the joint venture is a forfeit of all reversionary interest and no compensation will be paid. Pursuant to the new agreement, the City's investment in the joint venture under the I.C.A. Agreement has been contributed to the new WRA organization. The City retains a reversionary interest percentage in the net assets of the WRA redeemable only in the event the WRA is dissolved. During the year ended June 30, 2015, the City paid the WRA \$1,901,697 for operations, maintenance, equipment replacements and debt service payments.

The WRA issues separate financial statements that may be obtained at 3000 Vandalia Road, Des Moines, Iowa 50317-1346 or online at DMMWRA.org.

(5) **Notes Payable**

Annual debt service requirements to maturity for general obligation capital loan notes are as follows:

Year Ending June 30,	General Obligation Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest
2016	\$ 105,000	32,395	105,000	32,395
2017	105,000	31,660	105,000	31,660
2018	105,000	30,715	105,000	30,715
2019	105,000	29,455	105,000	29,455
2020	110,000	27,985	110,000	27,985
2021-2025	570,000	108,900	570,000	108,900
2026-2029	510,000	36,390	510,000	36,390
	<u>\$1,610,000</u>	<u>297,500</u>	<u>1,610,000</u>	<u>297,500</u>

(6) **Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age, which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a protection occupation member's monthly IPERS' benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.76 percent of pay and the City contributed 10.14 percent for a total rate of 16.90 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$127,817.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$300,350. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's

proportion was 0.007573 percent, which was a decrease of 0.003162 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$41,585, \$22,833 and \$281,746 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23 %	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 905,435	300,350	(210,058)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(7) **Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 23 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Coventry Health. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and the plan members are \$474 for single coverage, \$1,015 for employee/spouse coverage, \$839 for employee/child coverage, and \$1,299 for family coverage. For the year ended June 30, 2015, the City contributed \$180,086 and plan members eligible for benefits contributed \$26,098 to the plan.

(8) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and paid time off hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and paid time off termination payments payable to employees at June 30, 2015 is \$60,138. The liability has been computed based on rates of pay in effect at June 30, 2015.

The City's policy allows employees who retire to receive pay for unused sick leave, up to a maximum of 160 hours. The hourly rate of pay used for the payment of unused sick leave would be the hourly pay in effect at the date of retirement. All employees are eligible for this benefit if they retire from the City, and have unused sick leave hours on the date of retirement. Based on rates of pay in effect at June 30, 2015, the unused sick leave maximum liability to the City is \$40,940 at June 30, 2015.

(9) **Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2015 were \$54,034.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The City does not disclose a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been disclosed in the City's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000 for each accident, \$1,000,000 memorandum limit, and \$1,000,000 each employee. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Development Agreements

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction or improvement of buildings and infrastructure. Each payment represents the incremental property tax received by the City with respect to the incremental value of the property, reduced by the minimum amount required by Section 403.22 of the Code of Iowa. The low and moderate set aside amount shall be retained by the City for the purpose of providing assistance to low and moderate income families. The remaining total to be paid by the City under the agreements is not to exceed \$2,685,163

The City rebated \$330,884 to the developers during fiscal year 2015, for a total of \$400,623 of incremental property tax rebated under the agreements. The outstanding balance of the agreements at June 30, 2015 with fixed dollar commitments was \$592,203. The outstanding balance of the agreements at June 30, 2015 subject to annual appropriation was \$2,092,960.

(11) Related Party Transactions

The City had business transactions between the City and City officials, totaling \$146,887 during the year ended June 30, 2015.

(12) Deficit Balances

The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$1,636 at June 30, 2015. This deficit was the result of the payment of more monies than received into this fund. This deficit will be eliminated through future tax increment financing collections.

The Capital Projects Fund had a deficit balance of \$847,463 at June 30, 2015. This deficit balance was a result of costs incurred in excess of transfers. This deficit will be eliminated through subsequent transfers from the General Fund.

The Debt Service Fund had a deficit balance of \$134,497 at June 30, 2015. This deficit balance was a result of costs incurred in excess of transfers. This deficit will be eliminated through subsequent transfers from the General Fund.

(13) Commitments

The City has entered into a contract for a construction project. These costs were incurred for street construction. This project was ongoing at June 30, 2015. Total remaining to be paid on the contract was approximately \$680,000 as of June 30, 2015. These construction costs will be paid in fiscal year 2016, and will be paid by the City as work on the project progresses.

The Waterworks agreed to a forty year purchase agreement with Des Moines Waterworks in 2005. As part of this forty year agreement, the Waterworks agreed to purchase no more than the purchase capacity as noted in the agreement.

(14) Contingency

The City's local option sales tax referendum was effective January 1, 1986. City personnel were unable to locate ballot documentation as to how these funds were to be spent. As a result, the City was unable to determine whether the City has used the local option sales tax receipts for the purposes specified in the local option sales tax referendum. In the event that it is determined that the City was not spending the local option sales tax receipts for the purposes specified in the local option sales tax ballot referendum, there could be potential liability to the City. However, the amount of potential liability, if any, is unknown.

(15) Subsequent Events

The City offered early retirement to its employees. In fiscal year 2016, an employee accepted early retirement from the City in exchange for the City paying the cost of the employees' health insurance until the employee reached age 65. Total financial commitment to the City in relation to this early retirement program is approximately \$55,000.

The City has evaluated all subsequent events through February 1, 2016, the date the financial statements were available to be issued.

Other Information

City of Polk City
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 975,259	-	975,259	942,763	942,763	32,496
Tax increment financing	601,154	-	601,154	322,500	322,500	278,654
Other city tax	2,555,860	-	2,555,860	2,419,827	2,419,827	136,033
Licenses and permits	155,958	-	155,958	152,675	152,675	3,283
Use of money and property	72,102	7,899	80,001	111,000	111,000	(30,999)
Intergovernmental	426,405	-	426,405	376,621	395,621	30,784
Charges for service	375,777	1,064,192	1,439,969	1,483,800	1,483,800	(43,831)
Special assessments	-	-	-	10,300	10,300	(10,300)
Miscellaneous	94,838	9,759	104,597	331,650	349,200	(244,603)
Total receipts	5,257,353	1,081,850	6,339,203	6,151,136	6,187,686	151,517
Disbursements:						
Public safety	1,400,298	-	1,400,298	1,466,682	1,502,957	102,659
Public works	539,584	-	539,584	529,211	539,211	(373)
Health and social services	2,719	-	2,719	5,000	5,000	2,281
Culture and recreation	487,125	-	487,125	474,396	475,896	(11,229)
Community and economic development	393,685	-	393,685	377,500	387,500	(6,185)
General government	826,949	-	826,949	736,397	803,772	(23,177)
Debt service	150,042	-	150,042	-	150,045	3
Capital projects	951,724	-	951,724	1,229,293	1,738,293	786,569
Business type activities	-	2,823,295	2,823,295	1,252,451	3,020,571	197,276
Total disbursements	4,752,126	2,823,295	7,575,421	6,070,930	8,623,245	1,047,824
Excess (deficiency) of receipts over (under) disbursements	505,227	(1,741,445)	(1,236,218)	80,206	(2,435,559)	1,199,341
Other financing sources, net	18,052	1,697,575	1,715,627	-	1,523,120	192,507
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	523,279	(43,870)	479,409	80,206	(912,439)	1,391,848
Balances beginning of year	3,829,602	344,976	4,174,578	3,038,849	3,038,849	1,135,729
Balances end of year	\$ 4,352,881	301,106	4,653,987	3,119,055	2,126,410	2,527,577

See accompanying independent auditor's report.

City of Polk City

Notes to Other Information - Budgetary Reporting

June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$2,552,315. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and the general government functions.

City of Polk City

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
Last Fiscal Year*
(In Thousands)

Other Information

	<u>2015</u>
City's proportion of the net pension liability	0.007573%
City's proportionate share of the net pension liability	\$ 300
City's covered employee payroll	\$ 1,155
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	25.97%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Polk City

Schedule of City Contributions

Iowa Public Employees' Retirement System
Last 10 Fiscal Years
(In Thousands)

Other Information

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 128	109	101	82	73	66	59	53	49	46
Contributions in relation to the statutorily required contribution	(128)	(109)	(101)	(82)	(73)	(66)	(59)	(53)	(49)	(46)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 1,356	1,155	1,083	*	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	9.44%	9.44%	9.33%	*	*	*	*	*	*	*

* - City's covered employee payroll information was not readily available. Therefore, contributions as a percentage of covered employee payroll could not be calculated.

See accompanying independent auditor's report.

City of Polk City

Notes to Other Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

City of Polk City

Schedule 1

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2015

	Special Revenue				
	Road Use	Tax			
	Tax	Increment	Library	Debt Service	Total
		Financing			
Receipts:					
Tax increment financing	\$ -	329,248	-	-	329,248
Intergovernmental	356,848	-	-	-	356,848
Miscellaneous	197	-	-	-	197
Total receipts	357,045	329,248	-	-	686,293
Disbursements:					
Operating:					
Public works	312,114	-	-	-	312,114
Culture and recreation	-	-	229	-	229
Community and economic development	-	330,884	-	-	330,884
Debt service	-	-	-	150,042	150,042
Total disbursements	312,114	330,884	229	150,042	793,269
Excess (deficiency) of receipts over (under) disbursements	44,931	(1,636)	(229)	(150,042)	(106,976)
Other financing sources (uses):					
General obligation note proceeds	-	-	-	15,545	15,545
Total other financing sources (uses)	-	-	-	15,545	15,545
Change in cash balances	44,931	(1,636)	(229)	(134,497)	(91,431)
Cash balances beginning of year	133,831	-	7,751	-	141,582
Cash balances end of year	\$ 178,762	(1,636)	7,522	(134,497)	50,151
Cash Basis Fund Balances					
Restricted for:					
Streets	\$ 178,762	-	-	-	178,762
Other purposes	-	-	7,522	-	7,522
Unassigned	-	(1,636)	-	(134,497)	(136,133)
Total cash basis fund balances	\$ 178,762	(1,636)	7,522	(134,497)	50,151

See accompanying independent auditor's report.

City of Polk City

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes	Sep 9, 2014	0.50-2.90%	\$1,720,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Sep 9, 2014	\$ -	1,720,000	110,000	1,610,000	23,977	-

See accompanying independent auditor's report.

City of Polk City

Schedule 3

Note Maturities

June 30, 2015

Year ending June 30,	General Obligation Capital Loan Notes Issued September 9, 2014		
	Interest Rates	Amount	Total
2016	0.70%	\$ 105,000	105,000
2017	0.90%	105,000	105,000
2018	1.20%	105,000	105,000
2019	1.40%	105,000	105,000
2020	1.60%	110,000	110,000
2021	1.80%	110,000	110,000
2022	2.00%	110,000	110,000
2023	2.20%	115,000	115,000
2024	2.30%	115,000	115,000
2025	2.40%	120,000	120,000
2026	2.55%	120,000	120,000
2027	2.70%	125,000	125,000
2028	2.80%	130,000	130,000
2029	2.90%	135,000	135,000
		<u>\$ 1,610,000</u>	<u>1,610,000</u>

See accompanying independent auditor's report.

City of Polk City

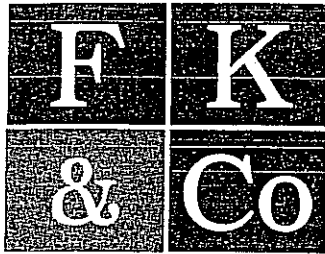
Schedule 4

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Receipts:										
Property tax	\$ 975,259	956,228	900,682	865,408	815,217	754,431	716,363	672,673	660,567	652,778
Tax increment financing	601,154	363,211	351,706	211,612	201,167	187,303	165,570	139,326	89,476	38,898
Other city tax	2,555,860	2,562,061	2,688,640	2,496,426	1,852,242	2,407,497	1,839,576	1,837,249	1,618,377	886,977
Licenses and permits	155,958	139,514	6,751	4,212	71,554	81,001	64,846	120,258	145,951	336,109
Use of money and property	72,102	111,349	123,139	115,074	126,698	123,873	116,930	194,813	109,141	163,269
Intergovernmental	426,405	395,682	369,847	375,210	347,900	310,792	294,806	355,754	1,095,037	301,478
Charges for service	375,777	492,289	522,178	373,447	195,459	150,842	156,631	105,246	92,250	97,588
Special assessments	-	-	-	-	-	46,319	-	-	1,674,518	-
Miscellaneous	94,838	35,193	9,835	80,546	46,040	43,668	71,491	81,185	52,628	78,644
Total	\$ 5,257,353	5,055,527	4,972,778	4,521,935	3,656,277	4,105,726	3,426,213	3,506,504	5,537,945	2,555,741
Disbursements:										
Operating:										
Public safety	\$ 1,400,298	1,419,542	1,381,726	1,209,217	831,653	822,826	825,688	1,197,167	769,747	641,447
Public works	539,584	436,576	465,306	388,778	486,582	437,051	611,167	311,412	410,598	542,564
Health and social services	2,719	2,692	-	2,569	-	4,681	-	7,500	-	12,081
Culture and recreation	487,125	400,294	362,769	363,820	423,770	394,666	340,042	352,076	389,241	276,196
Community and economic development	393,685	84,548	85,706	329,877	146,792	83,972	154,600	22,500	10,000	41,466
General government	826,949	600,573	690,176	553,114	621,780	612,431	572,733	444,456	439,144	792,342
Debt service	150,042	-	-	-	-	-	-	-	-	-
Capital projects	951,724	1,644,495	943,558	1,863,968	1,758,427	1,756,896	857,113	1,184,008	2,224,242	1,364,368
Total	\$ 4,752,126	4,588,720	3,929,241	4,711,343	4,269,004	4,112,523	3,361,343	3,519,119	4,242,972	3,670,464

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Polk City, Iowa (City) as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 1, 2016. We expressed an adverse opinion on the aggregate discretely presented component units due to the omission of the Polk City Firefighters Association and the Friends of the Polk City Community Library.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B), (C), (D) and (E) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (F) to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance or other matters which is required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
February 1, 2016

City of Polk City

Schedule of Findings

Year ended June 30, 2015

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) **Segregation of Duties** – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although one full-time individual and one part-time individual are involved in the accounting duties of the City of Polk City, (City) there is insufficient segregation of duties to prevent one individual from having control over each of the following areas for the City:
- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
 - 2) Investments – detailed record keeping, custody and reconciling.
 - 3) Long-term debt – recording and reconciling.
 - 4) Receipts – collecting, depositing, posting and reconciling.
 - 5) Accounting system – performing all general accounting functions and having custody of City assets.
 - 6) Disbursements – preparing checks, signing checks and access to the accounting records.
 - 7) Petty cash – custody, reconciling and recording.
 - 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response – Staff has reviewed internal controls and made the following changes:

We are now fully staffed and have taken the appropriate measures to segregate duties.

Conclusion – Response acknowledged.

- (B) **Financial Reporting** – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including note disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

City of Polk City

Schedule of Findings

Year ended June 30, 2015

Response – In previous years the city has relied on their auditor to prepare these statements and this is a new recommendation. In the future the city will prepare their OCBOA financial statements prior to the audit.

Conclusion – Response acknowledged.

- (C) Material Adjustments – Material adjustments were made to the financial statements. For example, the bond transactions were recorded in the incorrect fund. Transactions also appear to be made direct to fund balance. In addition, we identified some transactions recorded as a liability or a receivable on the accounting system, even though the City is on the cash basis of accounting. As a result of these differences, material adjustments had to be made to the cash basis financial statements.

The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on August 22, 2014. As a result, material adjustments were made to the accounting records in order to properly classify certain receipts and disbursements.

Recommendation – The City should implement procedures to ensure the year-end financial statements are prepared in accordance with the cash basis of accounting, and that all transactions are properly recorded on the accounting system. The City should also implement procedures to ensure all receipts and disbursements are properly classified in the accounting records. In addition, to provide better financial information and control, the COA, or its equivalent, should be followed.

Response – The City has taken the appropriate measures to remove any “payables” or “receivables” from their Accounting. The City has updated all accounting to be on a cash basis.

Conclusion – Response acknowledged.

- (D) Fire Department Billings – A private contractor provides billing and collection services for the fire department. However, the City does not receive any documentation from the private contractor documenting a reconciliation of fire department billings, collections and delinquencies. In addition, there does not appear to be any procedures in place to ensure all fire department services are billed.

Write-offs of delinquent fire department billings are not approved by an independent person. Also, it does not appear the City has a formal collection and delinquent write off policy in relation to the fire department collections.

Recommendation – The City should obtain or prepare a monthly report which reconciles fire department billings, collections and delinquencies. In addition, procedures should be implemented to ensure all fire department services are billed. Write-off of delinquent accounts should be approved by an independent person, and the City should implement a formal collection and delinquent write-off policy in relation to the fire department collections.

Response – The City will implement a formal collection and delinquent write-off policy in relation to the fire department. Staff will work with the Fire Department to obtain the necessary reports and reconciliation.

Conclusion – Response acknowledged.

City of Polk City

Schedule of Findings

Year ended June 30, 2015

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled during the fiscal year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts each month. An independent person should review the reconciliation and monitor delinquent accounts each month.

Response – The City has implemented a process to reconcile all UB, collections, and delinquent accounts on a monthly basis.

Conclusion – Response acknowledged.

- (F) Government Reporting – During our audit, we noted that the State of Iowa Job Service Reports for the first and second quarter of 2015 were filed in August, 2015. To avoid penalty, these reports should have been filed in April and July, 2015, respectively. As a result, the City will incur a penalty for late filings of these reports.

The employee timecards for one payroll could not be located by the City.

Recommendation – Procedures should be established to ensure all payroll reports are filed timely, and that all applicable accounting records are maintained, including employee timecards.

Response – Due to a change in staff, this was an issue that happened during the transition period. The City has taken corrective action to prevent any future issues.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Polk City

Schedule of Findings

Year ended June 30, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public works, culture and recreation, community and economic development and the general government functions. Chapter 384.20 of the Code of Iowa states, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

The beginning budget balances on the second budget amendment did not agree to the ending budget balances as recorded on the first amended budget.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, the beginning budget balances on the budget amendment should agree to the ending budget balances as recorded on the previous budget.

Response – We went over the budget in error. In the future, we have safeguards in place to prevent such event again.

Conclusion – Response acknowledged.

- (2) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Jason Morse, Mayor Son of Ken Morse	Tree purchases	\$ 221
Jeff Walters, Council Member Employee of Snyder & Associates	Engineering related services	146,666

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Ken Morse do not appear to represent a conflict of interest since total transactions with the individual were less than \$1,500 during the fiscal year.

In accordance with Chapter 362.5(3)(i) of the Code of Iowa, the transactions with Snyder & Associates do not appear to represent a conflict of interest since the Council Member does not own stock in Snyder & Associates.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

City of Polk City

Schedule of Findings

Year ended June 30, 2015

- (6) City Council Minutes – Transactions were found that we believe should have been approved in the Council minutes but were not.

We identified one set of City Council minutes and related claims which were not published. In addition, additional instances were noted where the related claims were not published in the newspaper. Chapter 372.13(6) of the Code of Iowa requires the minutes of the Council and all claims be published in the newspaper within fifteen days of the City Council meeting.

Recommendation – The City should implement procedures to ensure all City Council minutes and related claims allowed are included in the newspaper publication.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (7) Deposits and Investments – Except as noted at (9) below, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- (8) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City's records.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City's records.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (9) Monies in the Community Foundation of Greater Des Moines – During a prior fiscal year, the Library gave money to the Community Foundation of Greater Des Moines (Foundation) to invest.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 states, "No public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly." In addition, Chapter 392.5 of the Code of Iowa states, in part, "A library board may accept and control the expenditure of all gifts, devises, and bequests to the library."

Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee or other person and which show the receipt, use, and disposition of all city property."

The Iowa Auditor of State previously requested a letter of advice from the Iowa Attorney General regarding gifts to governmental entities and the propriety of a Library Board of Trustees giving proceeds from a gift to a private non-profit Foundation. The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2009. The advice letter states, in part:

City of Polk City

Schedule of Findings

Year ended June 30, 2015

"... I do not believe that a city library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be 'public funds,' subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking."

In addition, consistent with the Iowa Attorney General's advice letter, the proceeds and related income are public funds and must be accounted for, deposited and invested pursuant to Chapters 12B and 12C of the Code of Iowa and rules of the City. According to financial reports of the Foundation, the Foundation had investments in domestic and international equities, fixed income, hedge funds, real estate, private equity and cash. These types of investments are not included in the list of allowable investments of public funds specified in Chapter 12B.10(5) of the Code of Iowa.

Also, the agreement with the Foundation does not require the Foundation to notify the City, in writing, of the existence of material weaknesses in internal control or regulatory orders or sanctions regarding the type of services being provided under the agreement.

Recommendation – The City should consult legal counsel and recover the remaining proceeds of the Library's monies. In addition, the City should require an immediate accounting for these public funds from the date of the gift.

Until the City recovers the funds, it should seek to amend the agreement with the Foundation to require the Foundation to notify the City, in writing, of the existence of material weaknesses in internal control or regulatory orders or sanctions regarding the types of services being provided under the agreement.

Response – The funds have been returned to the City as requested.

Conclusion – Response acknowledged.

- (10) Financial Condition – The Special Revenue, Low-Moderate Income Fund had a fund balance of \$1,385,544 at June 30, 2015. Total expenditures from this fund in fiscal year 2015 were \$43,078. As a result, the fund balance in this fund may be excessive.

The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$1,636 at June 30, 2015. The Capital Projects Fund had a deficit balance of \$847,463 at June 30, 2015. The Debt Service Fund had a deficit balance of \$134,497 at June 30, 2015.

Recommendation – The City should ensure the balance in the Special Revenue, Low-Moderate Income Fund is reasonable. The City should implement procedures to eliminate the deficits in the Special Revenue, Tax Increment Financing Fund, the Capital Project Fund and the Debt Service Fund in order to return these funds to a sound financial position.

Response – We will review the Special Revenue, Low-Moderate Income Fund for reasonableness. We are exploring our options to spend these Special Revenue funds. We will also transfer monies from the General Fund to eliminate the deficits in the above funds.

Conclusion – Response acknowledged.

City of Polk City

Schedule of Findings

Year ended June 30, 2015

- (11) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

In relation to the City's TIF certifications we noted that for four of the economic development agreements, the City certified the total rebate amount. These four economic development agreements state that the rebate amount shall be subject to annual appropriations. Until appropriated, the payments do not represent debt and, accordingly, should not have been certified as debt.

Recommendation – The City should consult with TIF legal counsel to determine the disposition of these matters.

Response – This has been implemented on future TIF filings.

Conclusion – Response acknowledged.

- (12) Annual Urban Renewal Report (AURR) – The AURR was properly approved and certified to the Iowa Department of Management on or before December 1. However, the amount reported by the City as TIF debt outstanding was understated by approximately \$343,000.

Recommendation – The City should ensure the debt amounts reported on the Levy Authority Summary agree with the City's records.

Response – This oversight will be corrected on next year's report.

Conclusion – Response acknowledged.